AN INTEGRATED
WORLD BANK GROUP APPROACH

LEVERAGING THE PRIVATE SECTOR IN IDA COUNTRIES

The world's poorest countries have enormous needs for development finance—needs that can be met only when the public and private sectors work together.

The World Bank Group believes that broad, inclusive growth is central to ending poverty. This cannot occur without a thriving and sustainable private sector. To achieve the results that are important to the poorest countries—from filling large infrastructure gaps to growing small and medium-size enterprises (SMEs) for job creation, from expanding access to basic services to promoting stability in fragile situations—it is essential to build a dynamic private sector that complements public interventions.

The 2015 Addis Ababa Action Agenda challenged the global community to look beyond the public sector to catalyze the trillions of dollars of investment needed to achieve the Sustainable Development Goals (SDGs).

New sources of finance, knowledge, innovation, and partnerships are opening new opportunities for the poorest countries. Helping countries seize these opportunities and confront complex challenges demands close collaboration across the World Bank Group to engage and leverage the private sector in IDA countries.

IDA | The World Bank's Fund for the Poorest
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The World Bank Group Approach—Enhancing Synergies

The International Development Association (IDA), the World Bank's fund for the poorest, has been working to leverage and maximize the benefits of public and private sector synergies in a more systematic way.

We do this by tapping the combined strengths and comparative advantages of IDA, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—to enable IDA countries to have better access to a comprehensive package of support and to encourage greater private sector involvement.

$400 MILLION

The private sector window could significantly enhance MIGA's commitments to PSW-eligible countries by adding on average close to US$400 million annually to MIGA's gross issuance in these countries over three years.

15%

The private sector is expected to support IFC's ability to accelerate its impact in some of the most challenging FCS markets—by enabling growth in IFC investments to increase from an expected 5% annually to over 15%.

$6-8 BILLION

IDA18's private sector window is expected to catalyze an additional $6-8 billion in private sector investment to IDA and fragile and conflict-affected countries.

The World Bank Group at Work in IDA Countries

Collaboration across IDA, IBRD, IFC, and MIGA has grown over time and spans a range of activities at the regional, country, sector and thematic levels. This includes the preparation of joint Country Partnership Frameworks, Joint Implementation Plans, joint investment projects, notably for infrastructure and the financial sector, and joint advisory services and investment climate activities. Starting in July 2017, IDA, IFC and MIGA will step up their collaboration through the Private Sector Window (PSW), a new initiative to catalyze private sector investment and create jobs in the poorest and most fragile countries (see p.8).

AFGHANISTAN

IDA, IFC, and MIGA have helped turn around a barely functioning **telecom** sector following decades of conflict. As of 2015, 20 million people had access to a phone compared with only 57,000 functioning phone lines in 2002. The Bank Group came together to create an environment where change could flourish and encouraged the private sector to jumpstart investment. IDA financed the digital transmission network, the World Bank and IFC helped the government reform the policies and regulations needed to attract private investment, and MIGA came in with a guarantee to support the mobile operator against noncommercial risks. IFC provided a $65 million loan to Roshan, Afghanistan's largest mobile network operator, to support the roll-out of a 3G network, bringing the Internet to Afghans across all 34 provinces. Roshan expects to cover 80 percent of the population in five years and expand mobile banking services to help local businesses grow.

BURUNDI

IDA and IFC provided technical assistance to **reduce the compliance time and costs of paying business taxes** by 10 percent; simplify the tax regime for small and medium-size enterprises; expand the tax base; and align the tax-incentives regime with East African Community standards. The reforms included the establishment of a one-stop-shop for facilitating business in 2012, and reduction in the time required for business registration from 14 to 8 days. Costs dropped from 117 to 18 percent of GDP per capita and the annual number of registered companies more than doubled from 700 in 2010 to 1,500 in 2012.

CÔTE D'IVOIRE

The World Bank Group is **supporting the government's efforts to boost electricity output** by rebuilding the power infrastructure to meet the growing demand for electricity. To help modernize the Azito power plant, the World Bank helped put in place the necessary regulatory framework for investing in the sector, MIGA provided the political risk insurance to investors and IFC arranged a $345-million package funded by the five European development finance institutions and the West African Development Bank. They also provided $125 million of their own funds. At 427 MW, the plant is one of the largest thermal power plants in the region, easing power shortages and producing significant savings for Ivoirians. The modernized Azito plant will produce 50 percent more energy without using any additional gas and serve more than 2 million people. These improvements bode well for the region as Côte d'Ivoire becomes a power exporter to neighboring countries.

GHANA

To help increase clean and affordable energy in Ghana, the World Bank Group is providing a $200 million World Bank loan and a $500 million IDA payment guarantee for the **Sankofa gas project**. IFC is providing $300 million in financing for the project sponsor, Vitol Ghana, and MIGA is providing guarantees against risks to support Vitol Ghana's commercial borrowing needs. The guarantees cover $8 billion in private investment—a leverage factor of 11 to 1.The project will fuel up to 40 percent of Ghana's currently installed generation capacity and replace polluting fuels with cleaner, more affordable natural gas that is produced domestically. Ghana will be able to reduce oil imports by 12 million barrels per year and carbon emissions by around 8 million tons over five years. IFC has also helped increase Ghana's electricity generation capacity with financing for an efficient new gas-fired power plant. TICO 2 will account for about 15 percent of the country's total electricity output.

KENYA

The Bank Group helped the private sector and the Kenyan government work together on ways to **increase much-needed access to electricity** in a country where only 25 percent of citizens have access to power. An innovative public-private partnership between the World Bank Group, the government of Kenya, Kenya Power Lighting Company (KPLC), private investors, and commercial lenders has enabled successful financing for three independent power projects in Kenya that have helped expand the country's electricity grid. KPLC, the national power distributor is expanding its network to reach over half a million new households per year. The Kenya power projects are backed by unique packages of IDA-supported partial risk guarantees, paired with long-term debt and political risk guarantees from IFC and MIGA.

MYANMAR

Only one in three households in Myanmar has access to **electricity**. Along with the government of Japan, the Asian Development Bank, and other partners, the World Bank Group is committed to helping the government increase the electrification rate to 50 percent by 2020. The focus is on increasing generation capacity through a $140 million IDA credit to help a natural gas-fired power plant double its output capacity while lowering emissions. To increase the efficiency of power distribution, IFC is engaging with power utilities in Yangon and Mandalay to improve operations. Jointly, IFC and IDA are supporting the development of about 750 MW of new gas-fired power generation. The Myingyan project is the first competitively tendered independent power project in Myanmar. Upon commissioning in 2017, the power plant will be the

largest private power plant in the country and is expected to help ease the country's power deficit by contributing to improved services for 1.5 million people. Reliable electricity in Myanmar is expected to play a vital role in helping people to overcome poverty by boosting income-generating activities and employment and enabling continuous and sustained industrial activity.

NEPAL

Nepal's installed hydropower capacity is less than 1,000 MW, while its financially viable **hydropower** potential is estimated to be 43,000 MW. The government looks to add additional generation capacity by 10,000 MW in 10 years' time. The Bank Group is committed to supporting Nepal to harness its hydropower potential. Approved in July 2015, the Bank Group-backed Kabeli-A Hydroelectric Project aims to add hydropower generation capacity to supply the Nepal Electricity Authority grid through public-private investments. The Bank Group is providing support for the 216 MW Upper Trishuli hydropower plant using a range of IFC, IBRD/IDA, and MIGA financing and risk mitigation instruments. In addition to meeting domestic demand, the project will bring the largest foreign direct investment in the country once implemented. In addition, IFC's PPP Advisory is assisting Nepal's Ministry of Energy to identify hydro projects where private participation is advisable.

PAKISTAN

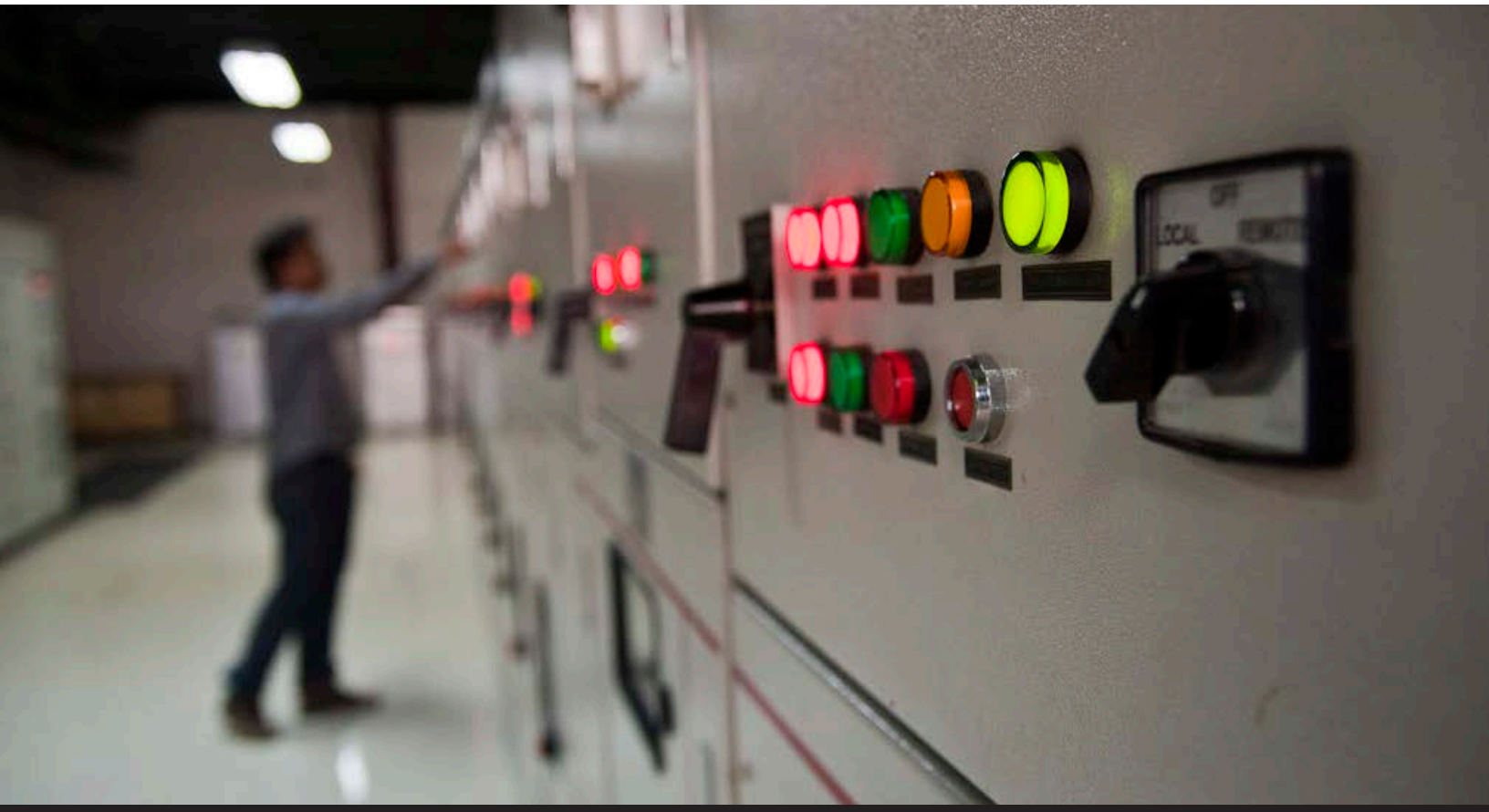
The Pakistan Energy Initiative is part of the much larger **transformational Pakistan Power** project, which aims to close the large and growing power gap in Pakistan. This joint initiative—the largest of its kind—seeks to mobilize $10 billion to support the sector with a mix of public and private projects. The World Bank, IFC, and MIGA have worked closely on strengthening the overall investment climate, paving the way for additional investors in what has been a challenging investment climate.

POWER IN AFRICA

The vast majority of Africans, roughly 65 percent, lack access to electricity. The World Bank Group is investing in transformational energy projects across the Africa region, providing reliable and affordable power supplies to aid business development; every $1 invested in the power supply generates more than $15 in incremental GDP. Hydropower is the world's largest source of renewable energy, and finding responsible ways to use Africa's vast hydroelectric potential can bring electricity to tens of millions of people who now live in the dark. By 2030, around 540 million people are projected to gain access to electricity, 500 million of those are in sub-Saharan Africa. Sub-Saharan Africa has 300 GW of undeveloped hydro potential, which is enough to nearly quadruple its total generating capacity of 80 GW. In contrast, Western Europe uses about 85 percent of its available hydropower potential.

Solar power has enormous potential as an energy source in emerging markets. At the same time, the cost of solar photovoltaic technology has fallen dramatically—solar PV can now deliver power less expensively and with more long-term price certainty, than coal-fired power. Many countries have struggled to develop utility-scale solar power plants as a result of challenges that include limited institutional capacity, lack of scale, lack of competition, high transaction costs, and high perceived risk.

Scaling Solar is a "one stop shop" program that helps countries, primarily in Sub-Saharan Africa, attract investors, as well as run a competitive selection process to attract winning bidders to build solar plants. Scaling Solar brings together a suite of World Bank Group services to help make privately funded grid-connected solar projects operational within two years and at competitive tariffs. Scaling Solar offers advice, simple and rapid tendering, fully developed templates, competitive financing and insurance, and risk management and credit enhancement.



New IDA Approach to the Private Sector

This collaboration has yielded solid results over the years, but more can be done to grow domestic private investment and attract and retain foreign private investment.

- In many countries, the domestic private sector remains largely informal and lacks institutional capacity, barriers to entry for companies remain high, and "a missing middle" of strong, sustainable SMEs that can grow, create long-lasting jobs, and enter export markets persists. The lack of long-term currency financing also constrains investment.
- At the same time, it is difficult to attract long-term foreign and domestic investors that are willing to enter into longer-term partnerships. These are essential to achieving environmentally, socially, and financially sustainable investments and development outcomes.
- The lack of investment is evident in the yawning gaps in infrastructure investment, which creates insurmountable problems for investors, both domestic and foreign, in other sectors.
- Moreover, pioneering investments in entrepreneurship, agribusiness, social inclusion and other sectors do not happen because of the risks involved in being an early mover.

These persistent and complex challenges, and the promise of reaching the 2030 SDGs, call on the Bank Group to do more to reduce risk, create new markets, and encourage investors to venture into countries and projects not considered before.

Working together with our development partners and IFC and MIGA, IDA has developed a pilot approach to mobilize responsible private sector investment in the poorest countries.

IDA LAUNCHES PILOT "PRIVATE SECTOR WINDOW"

As part of the IDA18 replenishment, a $2.5 billion IDA18 IFC-MIGA Private Sector Window (PSW) was created to mobilize private sector investment in IDA-only countries, with a focus on IDA-eligible (FCS) by supporting IFC- and MIGA-led transactions. The

creation of the PSW is based on the recognition that the private sector is central to achieving the SDGs and IDA18 objectives, including the creation of better and more inclusive jobs, while also recognizing the need to help mitigate impediments to private sector investment as well as expand the scale of investment.

Addressing the challenges in attracting foreign investment and growing the domestic private sector in frontier IDA and FCS markets requires de-risking at both the country and transaction levels. Country-level interventions entail continued strengthening of the business environment—already a hallmark of IDA's long-established engagement in low-income countries.

Similarly, IFC will continue and scale-up its advisory work, including project preparation and other capacity-building activities. These efforts will be strengthened further by a newly established IFC Creating Markets Advisory Window dedicating additional resources to upstream support and capacity building. At the transaction level, the PSW helps to "de-risk" investments by transferring a portion of the risk in individual transactions from private sector participants, IFC and MIGA to IDA in order to make otherwise risk-prohibitive, yet impactful, projects viable.

Successful pioneering investments can help reduce investor risk perceptions and open these countries up to more domestic and foreign capital—especially if coordinated with reforms to establish regulations, develop business and consumer markets, and generate externalities that overcome market failures.

The addition of the PSW enables IDA to deepen its work in the space where public policy and private investment meet. The PSW is a key pillar of IFC's 3.0 strategy, which aims to tackle difficult development challenges by creating markets and mobilizing private investors. It will also contribute to MIGA's Mid-Term Strategy for FY18-20 by augmenting MIGA's efforts to grow its core business – which already includes a focus on IDA countries – and expand its impact in FCS.

The PSW builds on the World Bank Group's robust support for private sector investment in IDA countries, totaling more than $100 billion in the past decade. It provides an opportunity for IDA to make strategic use of public resources to catalyze private investments in these challenging markets and complements IDA's existing support for policy and business climate reforms.

THE PSW WILL BE DEPLOYED THROUGH FOUR FACILITIES:

1. A **Risk Mitigation Facility** (RMF) to provide project-based guarantees without sovereign indemnity to crowd-in private investment in large infrastructure projects and public private partnerships (PPPs) supported by IFC, with MIGA as administrator.

2. A **MIGA Guarantee Facility** (MGF) to expand the coverage of MIGA guarantees through shared first-loss and risk participation akin to reinsurance, for investments such as those in infrastructure, agribusiness, manufacturing and services, financial markets and PPPs.

3. A **Local Currency Facility** (LCF) to provide local currency solutions to reduce currency risk for impactful projects in countries where such solutions are absent or underdeveloped.

4. A **Blended Finance Facility** (BFF) to blend PSW support with pioneering IFC investments across sectors with high development impact, including SMEs, agribusiness, health, education, affordable housing, infrastructure, climate change mitigation and adaptation, among others.

Work is underway to ensure that the PSW is fully operational by July 1, 2017. To achieve the PSW objectives, the World Bank Group has developed PSW eligibility and prioritization criteria, governance arrangements, and a performance and results framework to monitor the performance and outcome of the PSW. As a pilot to be operated in challenging markets, the PSW will be implemented with rigor and flexibility.

ILLUSTRATIONS OF POTENTIAL PSW-ENABLED INVESTMENTS

MIGA GUARANTEE FACILITY AT WORK

Viable, large-scale projects in IDA countries and FCS sometimes cannot get off the ground because private insurers and reinsurers lack capacity to provide risk mitigation in substantial amounts and over long

horizons. As a result, MIGA has been unable to support transformational projects such as the large-scale, long-term energy project example summarized below.

The Challenge—Hydropower has tremendous potential in this IDA country, where just 16% of the population has access to electricity. A $10 billion project under consideration would offer 5,000 MW of new capacity—double the country's current electricity output. Because of the project's scale, in order for MIGA to provide the support needed to move the project ahead, it will need more guarantee coverage than private reinsurers can provide.

The Solution—Alongside multiple sources of financing, MIGA is able to provide non-commercial risk coverage for contractual obligations and termination payment risk. Through the new MIGA Guarantee Facility, an IDA PSW allocation would offer $1-$2 billion in additional guarantee coverage—thus enabling this pioneering project.

RISK MITIGATION FACILITY AT WORK

The Challenge—The power sector of this small West African economy faces multiple challenges including small grids, low availability generation capacity, heavy reliance on imports, and fuel oil-based generation. Due to local conditions, solar PV represents a prime opportunity to increase electricity supply at competitive prices and establish energy security. The financial fragility of the off-taker and absence of payment track record under Power Purchase Agreements (PPAs) with Independent Power Producer (IPP) discourage private investment in the sector.

The Solution—IFC is seeking to finance the country's first solar IPP, which can be supported by the World Bank Group through the Risk Mitigation Facility (RMF). The RMF Liquidity Support Guarantee would help mitigate nonpayment risk by the off-taker, while the RMF Political Risk Insurance would help mitigate breach of contract and termination risk.

LOCAL CURRENCY FACILITY AT WORK

The Challenge—In a country where nearly half of the population lives below the poverty line, IFC is looking to support a hospital operator's investment in increasing access to quality healthcare and set standards of excellence. The client is susceptible to high foreign exchange risks, however, and long-term local currency financing is not available in the country. Under normal circumstances, IFC would issue a local currency-denominated bond. However, it is difficult in practice to match the timing and the repayment schedule of the bond with those of the underlying project.

The Solution—By partnering with IDA, IFC would issue a local currency-denominated bond, with the proceeds to be invested in government/corporate paper until they are needed by the project. As the project makes scheduled payments on the local currency loan IFC extended, the cash will need to be invested/managed onshore until payments on the bond funding the project are due. Because IFC cannot under its risk guidelines absorb the credit risk of low-rated instruments in which the cash would be invested, the Local Currency Facility would do so in its place. By bearing the credit risk associated with the liquidity management instruments (local government and corporate bonds), the IDA Local Currency Facility will facilitate: (1) local currency financing to a health care client and (2) an IFC local currency bond issuance, furthering the WBG's capital market development agenda.

BLENDED FINANCE FACILITY AT WORK

The Challenge—In this IDA country, energy generation depends on imported diesel, resulting in high energy costs. Viable renewable energy and energy efficiency projects have been too costly for investors. As a result, one project in particular has failed to take off over the past three years due to a lack of financing solutions.

The Solution—Partnering with a bank, IFC would create a risk-sharing facility to support a portfolio of renewable energy and energy efficiency loans in this country. IFC would cover 50% of the credit risk; the PSW's Blended Finance Facility would cover a first loss of 20% of IFC's maximum risk amount.

The World Bank Group and IDA at-a-Glance

IDA, IBRD, IFC, and MIGA each offer distinct capabilities that together create a holistic framework for catalyzing financing and collaboration in countries that often fail to attract private investment.

IDA's support for private sector development: Roughly 38 percent of IDA commitments in recent years has focused on strengthening the enabling environment for private investment, including the regulatory framework and institutions, thus helping catalyze private sector investment and growth. IDA's client support helps strengthen the foundations for resilient economies, from working to deepen investment climate reforms to building robust financial systems and expanding access to finance for the poor. Strategic partnerships at the regional and global levels complement IDA's country-level engagement and help amplify client impact.

IDA countries are also a critical priority for IFC: IFC's investments in IDA countries have tripled since fiscal year 2005, now reaching more than $5.5 billion a year. IFC helps foster a healthy business environment by supporting individual firms, strengthening corporate governance and standard-setting, and promoting global collective action. Since 2007, IFC has also contributed a total of $3.2 billion of its income to support the work of IDA. IFC made about a third of its new long-term investments in IDA countries in FY16. About 11 percent of IFC projects, totaling nearly $1 billion, were in fragile and conflict-affected areas of the world.

One of MIGA's top strategic priorities is to support investment in IDA countries: MIGA mobilizes private sector participation through political risk guarantees for investments in a broad range of sectors, helping to boost investment and keep revenues flowing. In FY15, MIGA provided $2.8 billion in investment guarantees; half of the projects supported were in IDA countries.

The IBRD works in middle-income countries and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. IDA and IBRD countries work together though knowledge exchange, innovation, South-South learning, and finance.

About IDA

IDA, the World Bank's fund for the poorest countries, provides grants and low- to zero-interest loans for projects and programs that boost economic growth, reduce poverty, and improve poor people's lives. IDA's work addresses pressing global challenges such as conflict, fragility and violence, climate change, and gender inequality, and promotes governance, institution-building, and economic transformation.

Since its founding in 1960, IDA has provided half a trillion dollars (in constant 2015 prices) for investments in 112 countries. Annual commitments have averaged about $19 billion over the last three years, with about 50 percent going to Africa.

In December 2016, more than 60 donor and borrower governments agreed to a record $75 billion replenishment for IDA. Financing during the IDA18 replenishment period, which runs from July 1, 2017 to June 30, 2020, is expected to support:

- Essential health and nutrition services for up to 400 million people
- Access to improved water sources for up to 45 million people
- Financial services for 4-6 million people
- Safe childbirth for up to 11 million women through provision of skilled health personnel
- Training for 9-10 million teachers to benefit 300+ million children
- Immunizations for 130-180 million children
- Better governance in 30 countries through improved statistical capacity
- An additional 5 GW of renewable energy generation capacity

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